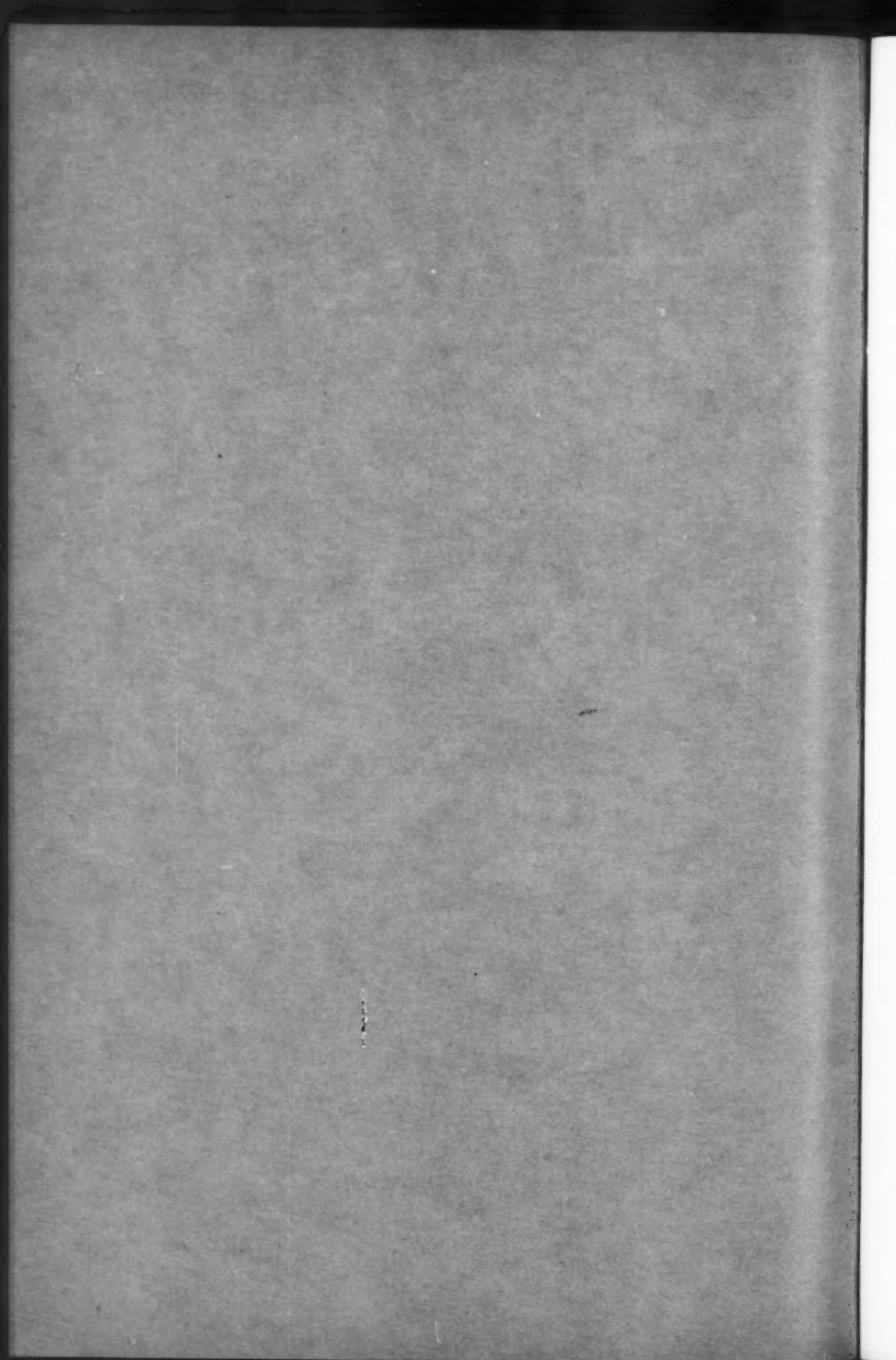


# L. R. B. & M. JOURNAL

VOLUME 7      NUMBER 6  
NOVEMBER, 1926

EUROPÉAN NUMBER

*Published by*  
LYBRAND, ROSS BROS. & MONTGOMERY  
*Accountants and Auditors*



# L. R. B. & M. JOURNAL

VOLUME SEVEN

NOVEMBER, 1926

NUMBER SIX

## The Public Accountant in Europe

By A. T. DAVIES

*(Resident Partner in Paris)*

In the matter of area over which our practice on the continent of Europe extends, we are more akin to you in the United States than to our confrères in England. The most northerly point reached by us is Helsingfors in Finland, which is on the 60th parallel of latitude, and the most southerly point is Valencia (Spain), which is on the 40th parallel: counting from West to East we have again Valencia as the farthest West and Bucharest (Roumania) the farthest East, roughly covering 26 degrees. A still clearer idea is gained, if we draw an imaginary line through the following cities and towns, all of which are visited by us in the course of our duties—starting from Paris, our line passes through Valencia, Marseilles, Genoa, Milan, Bucharest, Lodz, Reval, Helsingfors, Copenhagen, Luebeck, Hamburg, Rotterdam, Brussels, Lille, and again Paris: this represents our outer circle.

A question that will inevitably occur to the mind of the reader of this article will be, what kind of work are we called upon to carry out. Broadly this can be divided under two heads: first, investigation work preparatory to certifying accounts which are to be used as a basis for bond issues, and, secondly, the annual audit which the American and British shareholders or bondholders require, to assure themselves that their interests are being safeguarded. In addition, taxation work is playing a larger part than formerly and we also find that our

clients look to us more and more as general business advisers. On a few occasions we have been called in by German or French traders to advise on their system of accounting or to prepare a statement of their affairs, but this is as yet rather exceptional.

From this it will be seen that the European business man has not yet learned to appreciate the value of skilled accounting; (it is of course understood that I refer to Continental Europe). It is inevitable, however, that economic facts will force him to realize in the not distant future the value of accurate records, and the power given to him by exact costs and accounts.

At the present time, however, we must not count upon the French or German manufacturer or trader, but must look to the American or British house which has, through the high rates of interest, been encouraged to invest its money in Europe, or, has been forced to manufacture here through heavy import duties. Still another factor is the depreciated currencies, but as this must be viewed as a temporary influence only, I need not dwell on it here.

As time goes on and tranquillity returns to Europe, as I sincerely think it will, this flow of capital is likely to increase in volume; and in like proportion our sphere of usefulness also will grow. Progress in the direction of stability is slow, but careful students are agreed that it is none the less sure. Most of us have from time to time

attempted to estimate the interval that would elapse before the resumption of normal conditions in Europe and I think without exception we have been disappointed; nevertheless the curve is steadily upward.

Germany and France are the two countries in which we are most interested, so that a few words regarding conditions in these countries will not be out of place.

Some of the readers of this journal will without doubt have had an opportunity of examining the last report on the working of the Dawes Plan drawn up by Mr. S. Parker Gilbert, the Agent General for Reparation Payments. This booklet is well worth study, as the facts recorded therein give a clear picture of the enormous strides made by Germany during the early part of 1926. Everything that one hears and reads goes to prove that this progress is being steadily maintained, and that German thrift is appreciably on the upgrade. The latest records of the Savings Bank of Prussia are illuminating; the balance of deposits at 31st July, 1926, was 1,621 Million Marks, this was increased to 1,699 Million Marks at 31st August, showing a gain in one month of 78 Million Marks or a gain of 4.8 per cent over the first named figure; when it is remembered that Germany still has 1,548,000 unemployed, it will be allowed that the above figures are remarkable. This question of unemployment moreover is being well handled, and gradually industry is absorbing these workers, the latest report showing an improvement over the previous month by 64,000.

Financial conditions in France are very different; in spite of the "example" set by Germany in the matter

of inflation of her currency, the same road has, in a minor degree, been followed by France. "Following the same road." is scarcely a correct expression, as once inflation is embarked upon it becomes increasingly difficult for a government to change its methods.

So much has already been written about the state of affairs resulting from inflation, that the facts as to the vicious circle created are generally known and appreciated by people who have given thought to the question. Even the more pessimistic will admit that in spite of this vicious circle, provided a country be given a strong government and the people are sufficiently patriotic and disciplined to be guided by their leaders, it is possible to stop the slide of a currency. The next eight or ten months will probably solve these questions as far as France is concerned; at the moment the outlook is more hopeful than it has been for a considerable period. In the meantime she is giving away a part of her material wealth, just as Germany offered a profitable field for the man with money and confidence in the future, so does France do so to-day.

Currency inflation raises a number of problems which the accountant through his relationship with his client is often called upon to solve. Careful thought is required in these solutions, as rarely does one find the conditions identical in any two cases. The object of a trader or manufacturer is to sell his wares at such a price as will enable him to replace those wares, plus a reasonable profit to cover interest on his capital and the ordinary risks of variations in prices; a simple calculation in normal times is sufficient to fix such a price; but let us consider for a moment a few of the problems confront-

ing a manufacturer who is dealing in a currency which is not stable. To take an example, he imports a part of his raw material and for this he pays in dollars; another part is the product of the country and for this he pays in francs; the imaginary factory being situated in France, wages will be paid for in francs, and his general expenses will also be incurred in that currency. Complications do not end here, as the factory buildings may have been erected when the franc stood at frs. 6=\$1; a part of his machinery purchased and installed with the franc at frs. 20=\$1; already the calculation becomes involved, as to-day \$1 will buy 36 francs. In such a case as that described, we advise conversion of all calculations to the dollar basis and have already installed costing systems on these lines; prices of raw materials are converted at the rate ruling at the date of payment, expenses at the average monthly rate, depreciation is calculated on the dollar cost of the machinery and so on. A cost price in dollars is thus reached; but our troubles are not over, as, if our client's competitors are preparing their costs on a franc basis, it is found that their selling price is often lower than his cost price—moreover, as it is illegal to sell goods in France in any currency other than francs, a plan has to be evolved to avoid loss between the date of sale and the collection of the debt.

One might go on almost indefinitely in enumerating the special problems which have been confronting the accountant in continental Europe, particularly since the close of the war.

Enough has been said, however, to give a general idea of the multitude and difficulty of such problems and to indicate that there is plenty of

food for thought for the accountant in Europe to-day and ample opportunity for him to apply his ability and skill to the utmost.

There is also a lighter side to the practice of our profession in Europe. It is a true saying that "All work and no play makes Jack a dull boy" and there is little doubt that a man is a better accountant and generally a more useful member of the staff if he can, in his journey through life, take the healthy, reasonable pleasures which come his way and enjoy them to the full.

Comparing our lot with that of lawyers, we have much to be thankful for, as our work always carries us into other offices, often into other towns and occasionally into other countries and even continents. For the student of life (and are we not all that?) the opportunities presented to us as a result of our nomadic life, are many and varied.

When last the writer was in Spain, it so happened that the client, whose christian name was Henry, had his Saints Day. Soon after his arrival at the office in the morning, an unusual commotion was noticeable and presently a procession of the office staff and representatives from the warehouse filed into the "Boss's" office, a pretty brunette leading the way bearing a basket of white flowers on which was perched a white dove. These were presented with ceremony and speeches were made on both sides and the Boss wound up by inviting everybody to dine with him that night.

Recently in Italy our work took us to Milan and the men engaged decided that, over the weekend the lake of Como might give them inspiration for

*(Concluded on page 20)*

## The Language Problem in Auditing the Books of Companies Abroad

By F. O'DEA

(*Manager, Berlin Office*)

As will be readily understood, the examination of the records of a concern situated abroad, presents difficulties which are not encountered in similar examinations at home. Differences not only in accounting, but also in general commercial practice, in taxation regulations and procedure, and legal requirements, frequently constitute many pitfalls for the unwary. And, the world being what it is, there may even be found company officials, who endeavour to smooth down the auditors uplifted brows, with the consoling remark "It may seem peculiar to you, Mr. Accountant, but that is the general practice in this country."

It is not, however, at present intended to deal with these particular trials of the auditor abroad.

One point which is bound to exercise the mind of the accountant who considers taking up work in foreign countries, is the question of dealing with records kept in languages with which he is unfamiliar.

At this point, lest any subsequent remarks be misinterpreted, it should be stated that an accountant, going to take up work in a foreign land, would be failing in his duty to his clients, his firm and himself, did he not take steps, at the earliest possible moment to acquire as good a knowledge as possible of the language of the country in which his main work will be performed.

For the English-speaking auditor, who proposes to make the European continent the scene of his labours a

grounding in French, German and one other language is strongly to be recommended. This being said, however, it may be stated that the difficulties of auditing records kept in a foreign language are apt to be exaggerated.

The capability for learning languages, varies with the individual; but few can remain long in any country without obtaining at least a working knowledge of its spoken language.

Let us consider the position of an auditor who suddenly receives instructions to undertake an examination, in a country, with whose language and customs he is unacquainted. An auditor, working on the continent of Europe, is liable to be dispatched at a moment's notice to any one of a score of countries speaking languages of Teutonic, Latin or Slavonic origin. At first sight it must be admitted, the obstacle would seem to be considerable.

But, let us consider the matter a little more closely.

First of all, the more important part of the records which will be submitted to the auditor are written in a universal language—figures. He has a further universal language to assist him—double-entry bookkeeping. If, in the books of Cuervo & Co., the auditor finds an account headed Martinez Campos, and in the debit column an amount Ps.2,000, he need not understand a word of Spanish to grasp the fact that Messrs. Cuervo claim that Mr. Campos owes them Ps.2,000.

The next point that arises is, Why does Martinez owe the Ps.2,000? We may take it for granted that it is either for goods, for cash, or for services. The books in which most of these transactions are gathered—the sales book and the cash book will contain entries, the nature of which will be obvious, even to a person with no knowledge of the language. The cash book, for example, will consist mostly of a list of names of persons or firms, to whom cash has been paid, or from whom cash has been received. Substituting goods for cash, the same is true of the sales book. The first difficulty will arise, when the auditor meets with terms indicating expenses, different kinds of goods, services and so forth. The method of overcoming this difficulty will be evident from our later considerations.

Let us now regard the audit from another angle. The records which the auditor will be called upon to examine consist, in nearly every case, of assets and liabilities, and the effect upon these of the purchase or sale of commodities or services. It follows that the words with which the auditor will be called upon to occupy himself will refer, almost exclusively, to the operations of buying, manufacturing, selling and attendant factors.

Take the case of the average audit at home. The number of commercial terms with which the auditor is concerned is not very great. The majority of documents such as invoices, credit notes, delivery notes, etc., are stereotyped in form and content.

To take a very obvious example: If one sees in the purchases book the name John Brown opposite an entry for \$100, and the entry is supported by what one has learned is an invoice, one

only requires to learn the meaning of the word indicating the nature of the goods purchased, in order satisfactorily to vouch the entry. Should there be a note on the invoice regarding terms or payment or conditions of sale, this would, of course require special attention, but, what we are endeavouring to make clear is that, in general, commercial terms, the world over, are limited in number, and vary little.

The greatest difficulty, as a rule, will be encountered in the vouching of journal entries but, even here, a little care and thought is usually sufficient to show why sums are transferred from one account to the other. In most instances it will be obvious, and in doubtful cases, a little donkeywork with a dictionary will generally supply the solution.

The accountant should, therefore, make himself master of a vocabulary consisting of the most common words in use in the trade of the concern whose books he intends to audit, and the more common commercial terms. In addition, it is desirable that he should endeavour to acquire if possible at least a rudimentary knowledge of the grammar and the common words in daily use.

So far, we have considered only the normal straightforward matter of business. A different situation arises when the accountant is faced with contracts, articles of incorporation, etc. Laboriously to spell out such documents with the aid of a dictionary and a grammarbook would involve in most cases an unnecessary waste of time, besides being highly dangerous. The procedure to be adopted will naturally vary with the conditions. Circumstances have been known to arise, in

*(Concluded on page 20)*



## Some French Taxation Notes

French taxation could be held up as an example of the attempted distribution of the burden over as many sources as possible, but, unfortunately, these numerous sources all lead back to one class of taxpayer, viz., the town dweller, who therefore shoulders the fiscal responsibilities of the country. This inequality appears to result from the political position of the country, a very large majority of the "députés" representing the agricultural constituencies and being therefore averse to any further taxation of their constituents. As a consequence we find the industrialist and salaried worker with their minority of representatives unable to resist the suggestion of the majority, with their eyes on the voters, that it is their duty to work for the country.

The national revenue is received from an intricate series of taxes which are divided into two distinct sorts, direct and indirect, as follows:

### Direct

- Tax on house property,
- Tax on commercial or industrial profits,
- Tax on agricultural profits,
- Tax on salaries,
- Tax on non-commercial professions,
- General income tax,
- Tax on estates.

### Indirect

- Duty on imports,
- Interior taxes besides duty on such products as sugar, tea, alcohol, salt, etc.,
- Government monopolies, on tobacco, matches, playing cards, candles, etc.,
- Tax on pharmaceutical products,

Numerous stamp taxes on receipts, checks, documents produced in any administration, advertisement, etc.,

Tax on mechanically propelled vehicles,

Tax on entertainments, races, gambling, etc.

There are also a number of other petty taxes, besides the municipal taxes which take the following forms:

Percent of the rent,

Tax upon doors, windows, horses, carriages, clubs, dogs, etc.,

Tax des Patentes, a form of license tax to be paid before one can commence business of any kind,

Numerous other small sources.

It will be seen that the would-be French tax expert does not lack scope in his sphere of action.

The principal rates of tax on turnover are 2% and 12% on the invoice price, the former being for ordinary merchandise and the latter upon the actual sale to the public of articles termed "luxuries". Certain goods such as perfumes and motor cars, are easily classified and it is only when we come to the more expensive qualities of such things as furniture and clothes, that a small difference in the actual cash value may mean a big difference in the amount paid.

A list is issued, showing exactly how much a citizen is allowed to pay for his socks and collars without having to pay for being a plutocrat. Actually, with the increase in prices, the adjustment of the Government's estimated values have not been sufficiently rapid to prevent one becoming plutocratic on very humble occasions.



The tax on each source of income presents one or two interesting features. The different sources of income are classified as being derived from house property, stocks and shares, business profits, salaries, etc., and are taxed at varying rates, from 12% on salaries to 25% on the income derived from foreign securities. The correct assessment of agricultural profits is probably a world problem and it is interesting to note that in France a farmer is credited with making three times his rental or, in the case of the farmer owner, its value. This multiple is reduced to two and a half times for land under wheat and is increased to five times for nurserymen, market gardeners, etc.

In Great Britain, the farmer, a spoilt child, is assessed on an income calculated to be equal to the rent. However, agriculturists (English ones anyway) are a body towards whom the clerk of the weather has never been known to do the right thing and anyone knowing an English farmer will appreciate that this has no chance of happening. No doubt the clerk's impossible conduct has been brought to the Government's attention and this latter, whether convinced or not, has thought it best to agree rather than to give cause for yet another grievance.

Another unusual point is to be found in the calculation of the assessable income for the purposes of the above tax. Here we find that after the deduction of the usual allowances (personal, fcs 7,000; wife, fcs 3,000; per child, fcs 3,000; per dependent, fcs 2,000) any balance of income is assessed as follows:—

Difference between exempted minimum and fcs 10,000 assessed at one quarter.

Any fraction between fcs 10,000 and fcs 20,000 assessed at one half.

Any fraction between fcs 20,000 and fcs 40,000 assessed at three quarters.

Above fcs 40,000 the income is assessed at its full value.

We find the same method employed in taxing the total income from all sources. In this instance the rate of tax was 50% (reduced to 30% by a recent law) and a tax at this rate might well discourage the stoutest heart; however, by means of a graduated scale similar to the above only those possessing incomes in excess of fcs 550,000 are liable to the full rate, and as, according to the official statistics, these are chiefly remarkable for their small number, the opinion of the man in the street is that he would be very pleased to pay *if* he had the income.

The graduated scale is as follows:—

Exempted limit to fcs 20,000. 1/25th

Fcs 20,000 to fcs 30,000. . . . 2/25th

Increasing 1/25th per fcs 10,000 up to fcs 100,000, per fcs 25,000 from fcs 100,000 to fcs 400,000, and per fcs 50,000 up to fcs 550,000, when the remainder is payable at its full value.

Two other interesting points regarding this tax are the increases of 25% in the amount payable by bachelors over twenty-five years of age, and of 30% for married couples of more than thirty years of age and childless after two years.

These notes indicate roughly the principal sources of the country's revenue, but in addition, there are the numerous small taxes which, although not of great importance as to amount, need careful watching. It is hoped that from the above an interesting comparison may be made between the methods pursued by France and the United States.

## Preparation of Amalgamated Balance Sheets

By F. O'DEA

(*Manager, Berlin Office*)

In the case of a business consisting of a head office and a number of branches, considerable difficulty is sometimes experienced at the end of the financial year in preparing a balance sheet, showing the position of the business as a whole. The stumbling block is generally to be found in the accounts of the branches with the head office and with each other or of the several businesses with each other.

At the date of closing the books, it is probable that in many cases the balance showing as owing to say New York branch in the Berlin books, does not agree with the balance shown as due from Berlin in the New York books, this divergence being caused by the fact that certain debits and credits have been passed to New York account in the Berlin books towards the end of the financial year, but the advice has not reached the New York office in time to be entered in their books before the closing date, and vice versa. Similarly with the other branches, there will be items in transit, both between the branches themselves, and between the individual branches and head office.

It is the object of this paper to describe shortly a method which may be adopted to facilitate the preparation of amalgamated balance sheets in such cases.

The first essential is, of course, that the interbranch balances should agree, subject to the items in transit. To ensure this, instructions should be issued from head office to the various branches, to the effect that reconciliation statements should be prepared for

all interbranch balances. It is hardly necessary to add that, to avoid duplication of work, the head office should specify which branches are to prepare the individual statements. Thus, London branch shall prepare the reconciliation statement between London and Berlin; Berlin office the reconciliation statement between Berlin and Paris, and Paris the reconciliation statement between Paris and London, the reconciliation statements between head office and the branches will be prepared either at the head office or at the individual branches, as convenience may dictate. The reconciliation statements prepared by the branches are forwarded to the head office as one of the appendices to the balance sheet drawn up from the figures appearing in the branches' own books.

The head office has in the meantime prepared its own balance sheet. This is set out in the form of a columnar statement, the columns being headed with the names of the items appearing in the balance sheet. (For this, and the other statements mentioned, see the forms annexed.) The items representing sums due to and from the branches are, however, omitted from this statement.

On receipt of the balance sheets from the branches, the figures from them are entered under the head office figures, in the appropriate columns, all interbranch accounts in this case also being omitted.

The next step is to deal with the items in transit between the head office and the branches, and between the

branches among themselves. These items are, of course, obtained from the reconciliation statements. As all the assets in transit have been transferred out of the asset account in the books of the transferor branch, and not incorporated at the balance sheet date in the books of the transferee branch, and as all the liabilities have been transferred from the liability account of the transferor branch and not included among the liabilities of the transferee branch, it follows:

- (1) That to omit these items from the combined balance sheet, would give a false statement of the position.
- (2) From a book-keeping point of view, the insertion of the items in transit is the completion of a double-entry, and the balance sheet should therefore agree when they are inserted.

The simplest method of dealing with these items is to prepare a further columnar statement, setting out the items in the reconciliation statements under appropriate headings. This statement would be compiled in two parts, one dealing with debits in transit, the other with credits, and would take the form shown in the statement headed "Items in Transit," included in the example appended hereto.

This column would now be added, and the totals carried to the corresponding columns in the balance sheet statement.

The various columns of the balance sheet statement should now be added and the totals will give the figures for the amalgamated balance sheet of the concern as a whole.

#### HEAD OFFICE BALANCE SHEET

Cash . . . . .	M	2.000	Capital . . . . .	M	5.000
Accounts receivable . . . . .		3.500	Accounts payable . . . . .		1.500
Notes receivable . . . . .		4.000	Notes payable . . . . .		1.000
Stock . . . . .		7.500	Due to Branch B . . . . .		3.000
Due from Branch A . . . . .		2.500	Profit . . . . .		9.000
		<u>M 19.500</u>			<u>M 19.500</u>

#### BRANCH A BALANCE SHEET

Cash . . . . .	M	750	Accounts payable . . . . .	M	950
Accounts receivable . . . . .		1.600	Notes payable . . . . .		450
Stock . . . . .		2.700	Due to head office . . . . .		1.750
Due from Branch B . . . . .		550	Profit . . . . .		2.450
		<u>M 5.600</u>			<u>M 5.600</u>

#### BRANCH B BALANCE SHEET

Cash . . . . .	M	200	Accounts payable . . . . .	M	1.500
Accounts receivable . . . . .		250	Notes payable . . . . .		2.600
Notes receivable . . . . .		200	Due to Branch A . . . . .		1.200
Stock . . . . .		1.000			
Due from head office . . . . .		2.400			
Loss . . . . .		1.250			
		<u>M 5.300</u>			<u>M 5.300</u>

# RECONCILIATION OF BRANCH A ACCOUNT IN HEAD OFFICE BOOKS WITH HEAD OFFICE ACCOUNT IN BRANCH A BOOKS

Debit balance in head office books . . . . . M 2,500

## Add:

<i>Credited by branch, not yet debited by head office</i>		
Account due to head office collected by branch . . . . .	M 350	
<i>Credited by head office, not yet debited by branch</i>		
Commission on sales in branch territory . . . . .	100	450
		<u>M 2,950</u>

## Deduct:

<i>Debited by branch, not yet credited by head office</i>		
Cash transmitted to head office . . . . .	M 350	
Notes receivable sent to head office . . . . .	225	
Goods returned to head office . . . . .	300	
<i>Debited by head office, not yet credited by branch</i>		
Advance to branch representative . . . . .	325	1,200
		<u>M 1,750</u>
Credit balance in Branch A books . . . . .		<u>M 1,750</u>

# RECONCILIATION OF BRANCH B ACCOUNT IN HEAD OFFICE BOOKS WITH HEAD OFFICE ACCOUNTS IN BRANCH B BOOKS

Credit balance in head office books . . . . . M 3,000

## Add:

<i>Debited by branch, not yet credited by head office</i>		
Account paid on behalf of head office . . . . .		250
<i>Debited by head office, not yet credited by branch</i>		
Goods dispatched to branch . . . . .		200
		<u>M 3,450</u>

## Deduct:

<i>Credited by branch, not yet debited by head office</i>		
Goods received from head office in excess of amount invoiced . . .	M 1,000	
<i>Credited by head office, not yet debited by branch</i>		
Commission previously charged to branch, now cancelled . . . . .	50	1,050

Debit balance in Branch B books . . . . . M 2,400

# RECONCILIATION OF BRANCH A ACCOUNT IN BRANCH B BOOKS WITH BRANCH B ACCOUNT IN BRANCH A BOOKS

Debit balance in Branch A books . . . . . M 550

## Add:

<i>Credited by Branch B, not yet debited by Branch A</i>		
Commission on sales in Branch B territory . . . . .		750
		<u>M 1,300</u>

## Deduct:

<i>Debited by Branch B, not yet credited by Branch A</i>		
Note receivable received from Branch A dishonoured * . . . . .		100
		<u>M 1,200</u>
Credit balance in Branch B books . . . . .		<u>M 1,200</u>

\* The method of dealing with this item would depend upon circumstances. Here it is assumed that the note will eventually be paid, but Branch B declines responsibility.

## ITEMS IN TRANSIT

		<i>Debits</i>				
<i>Debited by</i>	<i>Not yet Credited by</i>	<i>Cash</i>	<i>Accounts Receivable</i>	<i>Notes Receivable</i>	<i>Stock</i>	<i>Profit and Loss</i>
Branch A	Head Office . .	M 350		M 225	M 300	
Head Office	Branch A . .	325				
Branch B	Head Office . .	250				
Head Office	Branch B . .				200	
Branch B	Branch A . .			100		
		<u>M 925</u>	<u>          </u>	<u>M 325</u>	<u>M 500</u>	<u>          </u>

		<i>Credits</i>				
<i>Credited by</i>	<i>Not yet Debited by</i>	<i>Cash</i>	<i>Accounts Receivable</i>	<i>Notes Receivable</i>	<i>Stock</i>	<i>Profit and Loss</i>
Branch A	Head Office . .		M 350			
Head Office	Branch A . .					M 100
Branch B	Head Office . .					1,000
Head Office	Branch B . .					50
Branch B	Branch A . .					750
		<u>          </u>	<u>M 350</u>	<u>          </u>	<u>          </u>	<u>M 1,900</u>

## BALANCE SHEET STATEMENT

		<i>Assets</i>				
		<i>Cash</i>	<i>Accounts Receivable</i>	<i>Notes Receivable</i>	<i>Stock</i>	
Head Office . . . . .		M 2,000	M 3,500	M 4,000	M 7,500	
Branch A . . . . .		750	1,600		2,700	
Branch B . . . . .		200	250	200	1,000	
In Transit . . . . .		925	350*	325	500	
		<u>M 3,875</u>	<u>M 5,000</u>	<u>M 4,525</u>	<u>M 11,700</u>	

		<i>Liabilities</i>				
		<i>Accounts Payable</i>	<i>Notes Payable</i>	<i>Capital</i>	<i>Profit</i>	
Head Office . . . . .		M 1,500	M 1,000	M 5,000	M 9,000	
Branch A . . . . .		950	450		2,450	
Branch B . . . . .		1,500	2,600		†1,250	
In Transit . . . . .					1,900	
		<u>M 3,950</u>	<u>M 4,050</u>	<u>M 5,000</u>	<u>M 12,100</u>	

\* Credit. † Loss.

## AMALGAMATED BALANCE SHEET

<i>Assets:</i>		<i>Liabilities:</i>	
Cash . . . . .	M 3,875	Accounts payable . . . . .	M 3,950
Accounts receivable . . . . .	5,000	Notes payable . . . . .	4,050
Notes receivable . . . . .	4,525	Capital . . . . .	5,000
Stock (inventory) . . . . .	11,700	Profit . . . . .	12,100
	<u>M 25,100</u>		<u>M 25,100</u>

## The Paris Office

The Paris Office is now situated in the rue des Italiens, a narrow winding street off the Boulevard des Italiens. Our nearest neighbors are the Guaranty Trust Company on the one side and "Le Temps," a leading French Paris paper on the other. Although the street itself is of comparatively modern construction, the Boulevard des Italiens from which it derives its name is full of historical associations. It came first into the limelight, as the center of fashion, towards the end of the 18th century. In the past as to-day, the fashionable quarter tended to move westward and for many years the Boulevards Montmartre, des Italiens and des Capucines were known as "Le Boulevard," and they exercised a very considerable influence, being the rendezvous of Society where the flower of French intellect held their court in the numerous cafés of the quarter.

The Boulevard des Italiens was the meeting place of the fashionable set known as "Les Incroyables" in the time of the "Directoire" (eventually thrown down by Bonaparte on his ascension to power). These people cultivated affectation to the extreme, by bizarre dress and speech and this curious name was given to them because of their continual use of the words: "C'est incroyable, ma parole d'honneur;" pronounced by them: C'est incroyable, ma parole d'honneur. The women were known as "Les Merveilleuses" for obvious reasons.

Actually the only relic of this ancient Paris now standing is the Pavillon de Hanovre, built in 1760, for the Maréchal de Richelieu, famous for his ma-

rauding tendencies which caused him to acquire such adjoining properties as he thought desirable.

The Boulevard des Italiens derives its name from the Théâtre des Italiens (1783) so named because founded by some Italian players later to be amalgamated with some French players, who had set up in opposition nearby, and then known as the Opera Comique. The original "salle" was burned down and in its place was erected the present theatre. It is interesting to note that this building is situated in a side street close to but not adjoining the main boulevard, the reason for this being that the original players were fearful of becoming known as "chanteurs de Boulevard" a term which they felt would reflect upon their talents. After the theatre was destroyed by fire, it was considered desirable that the new building should face onto the Boulevard but the directors had to bow before the immense expenditure that would have been involved in acquiring the frontage required.

On the Boulevard, at No 21 the Credit Lyonnais was built in 1875, a building impressive even to-day as viewed from the office windows. Close by we find the ancient site of the Salon des Italiens, famous as a society meeting place in the days of Louis XVI, after the Revolution to become known as the Salon Des Princes, when the quarter, again becoming the meeting place of the "haut monde", was known as the "petit Coblenz" as it was in this town that the emigrés had gathered in large numbers following their persecution by the citizens of the Republic.

All around are streets, narrow and winding but rich with historical associations. Not a stone's throw away was the old Opera House, now demolished, access to which could be had through the peculiar "Passage de l'Opera" which was destroyed only within the last year to make way for the final ending of the Boulevard Haussmann, this boulevard was conceived and commenced more than fifty years ago now and is the last triumph of the architect whose name it bears and to whom Paris owes her tree-lined sweeping Boulevards.

The general aspect of the Boulevard has undergone many radical changes and is now the hub of Paris, some say of the world, thronged with vehicles and pedestrians at all hours of the day or night and we, of the Paris Office, have but to stray a very short step to find the café of which it is said that, sitting on the "terrace" sipping an aperitif, we shall meet every friend we possess of whatever nationality or country, if only we wait long enough!

#### New York Supplement

In view of the reference in the foregoing article to Boulevard Haussmann the following note in a recent issue of the *New York Times* is of interest:

Comœdia of Paris continues to deserve its name by successive "inquiries" on most subjects under heaven. It has just been consulting divers "personages" on the great question, "Should Haussmann have a statue?" Most consultees say "Yes." *Le Temps* says "No," and believes that there would be plenty of other "anti-statificatrice" opinion if it were sought. Why this prejudice against Louis Napoleon's Prefect of the Seine, known to every "Cookie" as the re-

builder and embellisher of Paris, the great "piercer" of boulevards, himself the cause of so many statues?

He ruined old Paris, we are told. If he did, somebody else would have, if he hadn't. Cities don't exist solely for the sake of tourists, artists and archaeologists. He was too fond of the straight line. Certain famous Greek cities were even guilty of the American rectangular system of streets. Queerest charge of all, Haussmann sacrificed everything to "circulation," and now Paris is "bottled up" The old Baron made a mess of his construction and destruction, for "to rule is to foresee."

Poor old boy! Between 1853 and 1870 he ought to have foreseen the interminable procession of automobiles, autobuses, trucks. He was a musician. He was a lawyer. He wasn't a prophet. That's where he made his mistake. Comœdia can at least be thanked for believing that there is any more room in Paris for statues.

#### An Exchange Problem

An interesting sidelight of the recent French exchange disturbances is the fact that if a visitor arriving in Paris on the night of the 19th of July had gone to the bank early next morning to change \$1,000, he would have received Fcs. 49,330.

During his fortnight's stay in Paris he could have spent Fcs. 16,330 and returned to his bank the day of his departure the 6th August, and changed back the remaining Fcs. 33,000 into dollars, receiving in exchange \$1,000.

Anyone acquainted with French conditions will allow that to spend Fcs. 16,000 in a fortnight is a quite good going. And now a question for budding accountants. Who paid? The bank certainly didn't.



## Milan

By GEORGE LOWE

(Paris Office)

I first saw it when the moon, a huge shining orb, was rising higher and higher in a purple sky. The myriad stars twinkled serenely and placidly; the noises of the busy city were hushed; the brilliant lights of the Galleria were dimmed, and only the occasional honk of a taxi wending its way through the deserted streets awakened in me the realization that I was actually in a very matter of fact world. Before me it lay, ethereal and fairylike, the glory of Milan and the heart of the city, the Cathedral. Its ninety-eight silvery turrets seemed to reach to the very stars and the 2000 white marble statues had the appearance of smoky wraiths awaiting the judgment day. Even the church itself has the attitude of awaiting something—who knows what?—as it rests aloof in its ghostly beauty and splendour in the very center of the commercial and public life of the city. What a contrast it presents, what misleading impressions it creates of Milan, the financial capital, the wealthiest manufacturing town and, next to Naples, the most populous town of Italy.

Milan has long been an important place. Italians have warred over it; emperors have dwelt in it; leagues have been formed in it, feuds have been waged in it, and art and science have been promoted by it. Now it vies with Venice and Rome in painting, and marble sculpture has been quite perfected. The stately and majestic cathedral is surrounded by beautiful buildings, that attempt to rival it as ex-

amples of excellent architecture the romantic Palazzo Reala (Royal Palace) adorned with exceptional frescoes, the Palazzo Arcivescovile (Archepiscopal Palace) and the picturesque Galleria Vittorio Emanuele, the finest structure of the kind in all Europe. Always thronged with people, either hurrying there or merely sauntering about, it presents a startling kaleidoscope of brilliant color: students, painters, musicians, the smartest of the smart and the poorest of the poor, all find time to linger for a cup of coffee or a long cool drink at one of the cafés with their gayly covered tables. Shops display their wares temptingly and crowds collect in the streets to listen to the music of those same cafés; whether one is a devotee of the latest jazz and blues or a passionate lover of Verdi, Puccini and Wagner—all tastes are satisfied, satisfied but not sated, for then one attends La Scala, that world-famed theatre of incomparable melody, the dream of the aspiring singer and the heaven of the music-loving soul.

I picked my way slowly to the Palazzo de Brera, noting the faces of the passers by—men with the strained look that results from over attentiveness to work; men with the indolent expression that one finds in a tropical country; and carabinieri with their cocked hats and complacent gaze, always a pair of them stolidly staring about; Italian Officers obviously conscious of their well fitting uniforms and shining boots—and I realized why Milan was the successful city it

undoubtedly is. Each type gives something, however little it may be, for the common good and, although silk, woolen and cotton goods and art furniture form the staple commodities, it takes a bit of the hardworker, a bit of the sloth and the watchful eyes of the carabinieri and of the army to make them so.

The Palazzo de Brera contains a wealth of art and beauty, unbelievable and invaluable. Raphael, Leonardo da Vinci, Veronese, Tintoretto, Rembrandt, Rubens and Van Dyke, each has contributed to this veritable gold mine and treasure store. Nor are all the artistic works to be found preserved in museums. Exquisite mosaics, delicately tinted tilings, pastels, paintings in tempera and oils grace the interiors of innumerable dwellings. Friezes and tapestries enhance the beauty of rooms already made more than impressive by the fineness of wood carvings and marbles. Who would ever dream when looking at the large stone houses that seem so cold, so unattractive, that upon passing through the huge iron gate one would find oneself in a spacious court yard or lovely garden, visions of another world?

Palazzo alone has not the sole claim to romance and charm, for surrounded by green grass and leafy trees stands the old Castello Dforzesco, the Castle of the Visconti and Dforza families. Its imposing towers and façades are lovely examples of fifteenth century architecture. Although it was converted into a barracks by the Austrians it still retains, outwardly at least, the old world flavour and recalls feudal strikes and the days of chivalry.

The Milanese of to-day have developed in many respects characteristics distinct from the remainder of their

Co-nationals. The original race in this Capital of Lombardy, although retaining certain of the well known qualities of the Italian people, have, due to the merging of the northern races with whom they came so closely into contact, and by virtue of their common trade, developed very distinct Teutonic traits in both their habits and appearance. It is quite common to find amongst the women the fair, blonde haired, blue eyed Germanic type with which is blended the temperamental Latin charm.

Truly, Milan is indeed the artery through which modern Italy is revealing once more to us the great traditions of its past which we cannot imagine better personified than in the person of their own citizen Signor Mussolini.

### A Test by the Auditor

"Is this a speedometer?" she asked as she tapped on the glass which covered the instrument.

"Yes, dear," I replied, in a sweet, gentle voice.

"Don't they call this the dash light?" she queried, fingering the little nickel-plated illuminator.

"Yes, honey," my words floated out softly as before.

"And this is the cut-out?" she inquired.

"Yes, Toodles," as I took my foot off the accelerator. Not more than 200 feet away our course was blocked by a fast moving train.

"But what on earth is this funny looking pedal?" she said, as she gave the accelerator a vigorous push with her dainty foot.

"This, sweetheart, is Heaven," I said in a soft, celestial voice as I picked up a gold harp and flew away.

—*Watchman Examiner.*

## The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. and Montgomery, for free distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest and to help in the solution of common problems.

### PARTNERS

WILLIAM M. LYBRAND	New York
T. EDWARD ROSS	Philadelphia
ADAM A. ROSS	Philadelphia
ROBERT H. MONTGOMERY	New York
JOSEPH M. PUGH	Philadelphia
WALTER A. STAUB	New York
H. H. DUMBRILLE	New York
JOHN HOOD, JR.	Philadelphia
WALTER S. GEE	New York
HOMER N. SWEET	Boston
T. B. G. HENDERSON	Chicago
GEORGE R. KEAST	San Francisco

### CALIFORNIA

GEORGE T. KLINK	San Francisco
BARTON T. BEAN	San Francisco
C. S. BLACK	Los Angeles

### OFFICES

NEW YORK	110 William Street
PHILADELPHIA	Morris Building
CHICAGO	231 South La Salle Street
BOSTON	80 Federal Street
NEWARK	1060 Broad Street
BALTIMORE	Citizens Bank Building
WASHINGTON	Investment Building
PITTSBURGH	Union Bank Building
DETROIT	Book Building
CLEVELAND	Union Trust Building
CINCINNATI	6 East Fourth Street
SAN FRANCISCO	2 Pine Street
LOS ANGELES	935 Valencia Street
PORTLAND	Porter Building
SEATTLE	L. C. Smith Building
SPOKANE	Old National Bank Building

### FOREIGN

BERLIN, GERMANY	50-51 Unter den Linden
LONDON, ENGLAND	58 Coleman Street
PARIS, FRANCE	3 Rue des Italiens

## A European Number

The continued integration and expansion of industrial and commercial organizations in the United States during the past half century, and particularly during the last twenty-five years, has caused the public accountant to extend his organization beyond the confines of merely one city and to establish branch offices in the strategic business centers of America. Only by doing so is he able to serve his clients, and especially business concerns with country wide ramifications, in the most effective way. This development of public accounting practices of national scope has been forced on the accountant rather than sought by him by modern business conditions.

During the past several years the investment of large amounts of American capital in Europe has compelled the American accountant to extend his activities to the other side of the Atlantic. Germany has thus far been the field into which the largest portion of such investment of American capital has gone but in smaller degree it has also gone into French, Austrian and Italian business enterprises. The opinion is expressed in some quarters that the time may not be far distant when the tide of American investment abroad will turn more strongly to France and other countries on the continent. Stabilization of France's currency and the elimination of other unsettling factors will tend toward such a development.

It was in response to the need for being prepared to render effective service to those of our clients who had interests in Europe that we opened an office in Berlin at the beginning of 1925. We now also have an office in Paris. In London our old friends,

Messrs. Jackson, Pixley & Co., continue to represent us and we, in turn, act as their correspondents in America. Colonel Francis William Pixley, the senior member of that firm is a past president of the Institute of Chartered Accountants in England and Wales and one of the best known accountants in England.

In view of our European connections, it will doubtless be of interest to our organization to receive this European Number of the L. R. B. & M. JOURNAL. With the exception of the article referring to Mr. Haynes' recent contribution to the *National Income Tax Magazine*, which is included in this issue because of its timeliness, all the material for this issue has been supplied by the Paris and Berlin offices to which we feel deeply indebted for these contributions. So much material was received that we are compelled to carry some of it over to another issue of the JOURNAL.

### Notes

At the recent annual meeting of the American Institute of Accountants held at Atlantic City, Mr. T. Edward Ross was elected a member of the Council and also a member of the executive committee. The committee appointments by the president of the Institute for the year 1926-1927 included Mr. Lybrand to the Committee on Administration of Endowment, Mr. Sweet to the Committee on Cooperation with Bankers, and Mr. Keast to the Committee on Credentials.

Colonel Montgomery's collection of rare books illustrating the history and development of accounting has been donated by him to the school of busi-

ness of Columbia University. Some of the books are from the sixteenth century.

When one thinks of the rapid turnover which seems to have become characteristic, not merely of the labor in factories but also of the personnel of American business and professional offices, it is refreshing to be able to chronicle a record of approximately a quarter century of faithful service by Miss Anna M. Storey in our New York office. Miss Storey entered that office at its modest opening in 1902; for a time she was the entire internal staff, typing reports, writing correspondence, keeping the accounts, etc. She progressed with the increasing size of the office and was a valuable aide to the partners of the New York office throughout her period of service. During the past summer Miss Storey, changed her name to Mrs. Albert Agnew Eves and terminated her faithful service for the firm. Our best wishes for the days ahead follow her.

Mr. Hamilton Howard, C. P. A., who has been a member of the staff of our New York office for the past seven years, has been appointed Manager of our New York office, in charge of the internal administration of that office.

Edwin M. Bush of our New York office recently addressed the Cost Accountants Association of York, Pa. on the subject of "Balance sheet valuations as viewed by the banker, credit man and manufacturer." H. C. McCluskey, formerly connected with our New York office, is president of the Association at this time.

## “Millions Lost Through Inadequate Interest Payments”

The October, 1926, issue of the *National Income Tax Magazine* contains an article under the above heading, written by Mr. J. Marvin Haynes, the Manager of our Washington office. The magazine editor's note in regard to this article follows:

There has been much criticism of the construction placed by the Treasury Department upon Section 1116, which applies to the determination of interest upon the allowance of credit or refund of internal revenue taxes erroneously or illegally assessed or collected.

Millions of dollars are involved, and Mr. Haynes has prepared this article in exposition of what appear to be the rights of taxpayers, so that steps may be taken in time for their protection where such action has not already been taken.

In the course of the article Mr. Haynes compares Section 1116 of the law with Section 1019 of the 1924 law, and raises the question, and goes on to comment as follows:

Did Congress eliminate the provisions of the 1924 law which the Treasury apparently believed resulted in the excessive payment of interest? With the exception of the italicized portion of the following clause, paragraph (a) [Section 1116 of 1926 law] is exactly the same as Section 1019 of the 1924 law:

“ \* \* \* \* or in the case of a credit, to the due date of the amount against which the credit is taken, but if the amount against which the credit is taken is an additional assessment *made under the Revenue Act of 1921, the*

*Revenue Act of 1924, or this Act,* then to the date of the assessment of that amount.”

We should keep in mind the Treasury's theory. No interest should be paid on overassessments credited against additional taxes for years on which interest is not collected. It is understood that the Treasury's draft of Section 1116 accomplished this purpose, but for some reason, Congress eliminated some important words which the Treasury alleges were cut out because Congress considered that they were not necessary to accomplish the desired result. The record does not show the draft made by the Treasury. Neither does it show that Congress made any changes in the Treasury's draft. It is true that the Conference Report expressed an intention to bring about the results sought by the Treasury. This legislative history can not be used in the construction of the section, unless it can be said that it is ambiguous.

The 1926 law, like the 1924 law, provides for the method of computing interest in the only two possible cases where credits can be taken, viz.:

- (1) Unpaid taxes shown on the taxpayer's return.
- (2) Additional taxes assessed by the Commissioner of Internal Revenue.

Interest on credits made against unpaid taxes shown on the taxpayer's returns should be computed from the date the overpayment was made “to the due date of the amount against which the credit is taken.”

\*\*\*\* Interest on credits made against additional taxes assessed by the Commissioner under the 1921, 1924 and 1926 laws should be computed "to the date of the assessment of that amount." The Treasury holds that an additional assessment is made when the Commissioner signs the list to be sent to Collectors. For the purpose of this discussion, it is immaterial whether this ruling is correct. Interest on credits made against additional taxes assessed *under laws prior to 1921* should be computed to "due date" of the amount against which the credit is taken.

Later in the article Mr. Haynes quotes the interpretation of "the due date" of an additional tax under the 1918 and 1921 laws by the Solicitor of Internal Revenue (now General Counsel) as follows:

"An additional tax, as its name implies, is a tax found by the Bureau in addition to that reported by the taxpayer in his return and may be discovered from the face of the returns or from information secured by the Bureau in the ordinary course of its investigations. *Such an additional amount upon its ascertainment is thereafter assessed and becomes due and payable upon notice and demand by the collector and such additional tax is due upon the date of such notice and demand as given by the collector.*" (Italics ours.) (Sol. Op. 147; C. B. 1-2, page 215.)

Mr. Haynes distinguishes the procedure of the Treasury from the procedure required under his interpretation of Section 1116 of the 1926 law, as follows:

The Treasury in effect classifies

credits in two groups, viz.: those against

- (1) Unpaid taxes shown on the taxpayer's return and additional taxes assessed by the Commissioner *on returns filed under laws prior to 1921 law.*
- (2) Additional taxes assessed by the Commissioner *on returns filed under the 1921, 1924 1926 laws.*

Interest on credits falling in Class (1) is controlled under the Treasury's interpretation, by the words "to the due date of the amount against which the credit is taken," and Class (2) is controlled by the words "to the date of the assessment of that amount."

There is very little fault to be found with the Treasury's classification, but it is clearly wrong in its interpretation of the words "the due date of the amount." The Treasury in effect says that "the due date" is the date the return was filed. Reference to the 1916-1917 law will emphasize that the Treasury is wrong. Under that law no tax, either original or additional, was due until the taxpayer was notified. Furthermore, it is well settled that an additional tax under laws subsequent to 1916-1917 is not due until the collector makes notice and demand.

In a series of examples Mr. Haynes illustrates how, under the present procedure of the Treasury, a taxpayer who is assessed additional taxes and receives overassessment certificates for years prior to 1921, may not receive the amount of interest to which, under the author's interpretation of Section 1116 of the Revenue Act of 1926, he is entitled. Under these conditions it

may inure to the financial advantage of the taxpayers who are affected, to study Mr. Haynes' article carefully and, if they find that under his interpretation of the law, additional interest is due them, to protect their interests by appropriate claims. The members of our staff are asked also to study this article carefully with a view to its application to any case on which they are engaged, which may be affected thereby.

---

### **The Language Problem**

*(Continued from page 5)*

which it would have been undesirable to apply to a professional translator in the country in which the work is being carried out. In such a case the accountant would, if time permitted, have a copy of the document prepared, from which the names of the interested parties had been omitted. This copy he would transmit to his home office, that a certified translation might be made, and returned to him. Should this method prove to be impracticable, he would, as before, take a copy of the document and retain it among his papers. He would then request one of the responsible officials to provide him with a translation. This he would assume to be correct, satisfying himself on his return to his home office, and before certifying the accounts, that it was so.

There is no doubt that an accountant practising on the continent of Europe has a great advantage if he possesses at least a working knowledge of the four world languages: English, French, German and Spanish. There are few concerns, likely to call in the aid of a foreign accountant, where one or more of the officials does not speak one or more of these languages.

### **The Public Accountant in Europe**

*(Continued from page 3)*

report writing, also they had been reading in the newspapers of the records being set up by Channel swimmers. One of them, of a sporting turn of mind, therefore decided to swim across Lake Como, and did so, much to the amusement of the visitors staying at Menaggio.

Our work in Finland falls at about the time of the longest day June 21st, and it is one of the approved customs to sup late that night as it is then possible to commence the meal at sunset and get up from the table at sunrise. The sun is actually below the horizon for less than three hours, but even during those hours his reflection in the sky is so strong that it is possible to read a book with the greatest comfort; this time of the year is known as the "white nights" and is supposed to account for the rapid growth of all plant life. The summer period is such a short one in those northern latitudes that this is nature's method of compensation.

Zurich, at the head of Lake Zurich in Switzerland, is another of the beauty spots of the world to which we have to go in order to place the words "audited and found correct" before our signature.

It is scarcely necessary to add that there are two sides to the shield and that conditions are some times anything but pleasant; he is the wise man, however, who takes it all with a smile.

---

### **And to the Point**

"Did anyone comment on the way you drive your new car?"

"Yes, one man made a brief remark: 'Twenty dollars and costs.'"



